

EXECUTIVE SECRETARIAT

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Remarks:

Executive Secretary

8/10/83

Date

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Executive Registry
83-4039/1

August 9, 1983

CONFIDENTIAL (with SECRET attachments)

Interagency Group No. 39

TO: OVP - Mr. Donald P. Gregg
NSC - Mr. Robert Kimmitt
Agriculture - Mr. Raymond Lett
AID - Mr. Mark Edelman
CEA - Mr. William Niskanen
CIA - [redacted]
Commerce - Mrs. Helen Robbins
Defense - Col. John Stanford
Energy - Mr. William Vitale
JCS - Ltc. Dennis Stanley
OMB - Mr. Alton Keel
OPD - Mr. Edwin Harper
OSTP - Dr. George Keyworth
Transportation - Mr. Logan H. Sallada
Treasury - Mr. David Pickford
USIA - Ms. Teresa Collins
USTR - Mr. Dennis Whitfield

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SUBJECT: President's Trip to East Asia

Transmitted for your review are documents that Assistant Secretary Wolfowitz promised at the August 9 meeting of the East Asia Interagency Group.

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ISSUES CONCERNING THE PHILIPPINES FOR THE IG

US-Philippine relations are excellent; they have not been better for a very long time. President Marcos believes that he enjoys a special relationship with the President, based on the state visit last September.

Strategic Relationship

The primary US interest in the Philippines is in continued access to our important military facilities at Subic Bay and Clark Air Base. We have recently completed a successful review of our Military Bases Agreement (MBA) with the Philippines. It produced no major changes. Accompanying the review was a presidential "best efforts" letter pledging a total of \$900 million in economic assistance and military aid for the Philippines over the FY 85-89 period, subject to Congressional approval.

We kept the appropriate Congressional committees informed about the course of the MBA review. Many members were pleased by the relatively low cost for the continued unhampered use of the bases. However, Chairman Solarz of the HFAC Asian and Pacific Subcommittee has indicated that he might wish to alter the mix in the security assistance package in order to signal dissatisfaction with Marcos' human rights record. Such an action would have serious consequences for our security relationship.

Financial and Economic Relations

The Philippines, is currently in financial difficulty. Economic growth in the 1980's has slowed to 2%. The value of its traditional commodity exports is down (coconut, copper, sugar) though new manufacturing exports industries (electronics, textiles) are doing well. Major US and Japanese banks continue to be guardedly optimistic regarding the medium and long term prospects for the Philippines. The financial situation is serious, but the easing of the situation in Latin America might permit the U.S. (and Japanese) commercial banks to assist the Philippines in getting over the difficult 12-18 months ahead.

Trade issues which the Philippines and ASEAN promote with the US include renewal of liberal GSP programs, special CBI type preferences, and an improved textile agreement. Manila recognizes the need for more foreign investment, but needs to improve the ground rules to attract it. Our most serious current issue is a countervailing duty (CVD) case on canned tuna brought by the US Tuna Association, alleging export subsidies.

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The Government has recently adopted politically painful austerity measures to reduce the budget, devalue the currency, and cut subsidies. GOP reserves are nearly gone and they are seeking relief from the larger US banks. Philippine financial managers still maintain excellent reputations, since the larger part of their problems were externally caused during the recession. In response to strong appeals for assistance, we are examining possible sources of financial support to help carry the Philippines through the difficult short-term period.

Domestic Philippine developments and Human Rights

In recent years the Marcos Government has eased limits on some civil liberties but significant problems persist, notably military abuses in insurgency areas. Over the past months, the government has hardened its stance toward the moderate opposition and activist Catholics, a policy which has caused problems with the Catholic Church. Cardinal Sin, the primate of Manila, has publicly opposed U.S. military assistance on grounds it will be used to suppress legitimate dissidents.

In conversations with Philippine leaders about the insurgency threat, political "normalization," next year's parliamentary elections, and human rights in general, the keen interest of the US Congress in these subjects should be noted. Marcos does not relish the subject of human rights, but he appreciates that we talk with him about it only in private. It is important, however, to do so in private and not to leave the impression that we are indifferent. An important milestone to note is the promise of free parliamentary elections next year and our hope that the democratic opposition will have the opportunity to participate fully in those elections.

Drafted by: EA/PHL: JF Maisto
632-1221 8/09/83

Clearances: HA/HR: D Roberts
EB/GCP: M Barrera

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Issues Concerning Indonesia for the IG

Following is a list of possible initiatives and issues for the President's trip, both of a bilateral and ASEAN nature, which might be discussed in the IG. Certain overreaching economic matters (e.g., protectionism, G-77 issues) will also surface in President Suharto's meeting with the President, as well as in discussions with the ASEAN Foreign Ministers.

A. Law of the Sea: We might seek interagency concurrence to pursue with the GOI an LOS "understanding" whereby the USG would recognize Indonesia's archipelagic claim as defined in the LOS Convention in exchange for GOI recognition of U.S. transit and overflight rights under customary international law. This issue may also arise in connection with the Tax Treaty.

B. Tax Treaty: Treasury and the GOI are presently reviewing previous work done on a tax treaty; a treaty signing may be possible for the President's visit.

C. Development Assistance/PL-480: We need to consider what the President might say about future development assistance and PL-480 levels during the visit.

D. Scientific Cooperation: Planned discussions with GOI Research and Technology Minister Habibie may yield ideas on new S&T initiatives. These could be pursued before the President's visit by White House Science Adviser Keyworth, who will visit Jakarta in September; by the National Academy of Sciences, which is hosting an October symposium on Indonesian scientific planning; and by AID and OES.

E. Investment Promotion: OPIC is sponsoring an investment mission in December 1983, fulfilling a USG commitment made during the Suharto state visit last October to encourage US investment in Indonesia. Commerce is also exploring the feasibility of a joint MOU on investment promotion, which might be signed by a principal accompanying the President.

F. Refugees: We should reassure the GOI of our intention to continue playing a significant role in containing the Indochinese refugee problem, making as positive as possible a statement on US resettlement levels.

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G. FMS: We may need to explain again the rationale behind the 60% cut in planned FY83 FMS credit levels. We hope to pin down a \$5 million FY83 supplemental soon, underscoring our intention to maintain significant levels of FMS in the future.

H. Human rights: If the "mysterious killings" persist, we might consider expressing USG concern at some sub-Presidential level. Depending on the then current situation, we may wish to commend the GOI on progress achieved in East Timor.

I. Export promotion: We might package several existing Commerce-organized advisory programs and possible new USAID projects on marketing or other issues as a new initiative to assist the GOI increase non-oil exports.

J. Shipping: Although we have so far been able to work out ad hoc arrangements to mitigate the impact of the GOI's restrictive maritime regulations, we may wish to point out their deleterious impact on US shipping and free trade.

K. Advanced fighter aircraft: Although now on the backburner because of Indonesia's fiscal problems, the GOI could raise its interest in procuring a new fighter aircraft. We should have an appropriate response ready.

L. Defense Industrial Cooperation (DIC): Although the DIC agreement has so far had little content, we could attempt to find new projects proposals to surface in the context of the visit.

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Drafted by:EA/IMBS:ALaPorta/AMLehn
Cleared by:EA/IMBS:JWinder

RP:BFlatin (substance)
HA/HR:DRoberts
T:JMussomeli
EB/GCP:MBarrera

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Issues Concerning ASEAN for the IG

A. GSP: Concern will be expressed that the GSP renewal legislation recently presented to Congress is not as generous as the current scheme and may particularly disadvantage Singapore. The IG should determine how the President can respond to ASEAN concerns.

B. Textiles: Given ASEAN concern over textiles we should stick to our MFA obligations.

C. Caribbean Basin Initiative: The President should reassure the ASEAN countries that CBI will not adversely affect their trade interests.

D. EXIM Bank: A new estimate of potential lending to ASEAN should be prepared, together with a list of major projects on which U.S. companies are bidding. The President should note the importance of EXIM loans in his public statements on private sector cooperation.

E. Tariff Reductions: The IG should consider using this visit to try to develop support for the North/South round which could also be a vehicle for reductions in specific U.S. tariffs. Hardwood plywood was raised by President Suharto last year but a tariff cut would benefit several ASEAN countries.

F. Investment: The President should make a strong statement supporting increased U.S. investment in ASEAN, accompanied by a commitment to work constructively with ASEAN governments to reduce impediments to investment.

G. Commodities: The centerpiece will be U.S.-ASEAN consultations on GSA tin disposals which should be launched by the time of the President's visit. We should explain our preference for effective CFF operations to assist in offsetting balance of payments shortfalls relating to commodity exports.

H. Management Development Program: The President could announce a joint USG-private sector program to plan and carry out specialized management training for small and medium sized industries and agribusiness. A public-private sector task force will be needed to refine and implement this initiative.

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I. ASEAN Economic Projects: The President could propose a joint U.S.-ASEAN Cooperation Council to meet periodically to review and formulate cooperative activities. Also, the President could declare USG willingness to consider technical assistance projects in the following areas:

- tax administration (Treasury);
- marine science and remote sensing (Commerce/NOAA);
- quality control for food and natural commodity exports, such as fish, shrimp, spices, coffee, rice, etc. (FDA);
- food storage and processing technology;
- toxic waste disposal (EPA);
- pollution control technology (EPA, NAS); and
- use of video techniques in health education (USIA, HHS).

J. Other Cooperative Projects: The President could declare or reiterate USG interest in the following:

- participation in 1984 ASEAN Science and Technology Week in Singapore;
- regional narcotics projects;
- support for the Southeast Asian Tin Research and Development Center (SEATRAD);
- economic journalists program (USIA sponsorship of a second U.S. visit of ASEAN economic editors);
- visits and training of museum curators (USIA and Smithsonian);
- increased sports exchanges (coaches and teams); and
- increased USG support of American scholars for study in the ASEAN region (USIA).

K. Common Fund: Should the USG position on the Common Fund be questioned, we need to prepare an appropriate response.

L. Refugees: We should reassure the ASEAN nations of our intention to continue playing a significant role in containing the Indochinese refugee issue, making as positive as possible a statement on resettlement levels.

M. POW-MIAs: We need to consider whether it is necessary to follow-up what Secretay Shultz has already said to the ASEAN Foreign Ministers.

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Checklist of Issues: Thailand

The major issues for the trip and the scheduling issues have been discussed elsewhere. The following is a list of potential action issues for Washington agencies.

-- Refugees. The decline in the offtake of refugees is a troublesome aspect of US - Thai relations and must be addressed during the visit.

-- Rice (Food and Drug) Problems. This is potentially a serious problem. The Food and Drug administration just placed Thai rice and rice products on the "automatic detention" list circulated to FDA field offices. Action is being taken by State with the cooperation of FDA to arrange consultations in August. This issue must be pressed to early resolution, before the trip.

-- Treaties in the Legal Area.

Extradition Treaty. A new extradition treaty is a candidate for signature during the President's visit. A draft has been initialed, but an article on capital punishment remains "bracketed." State is lead agency, Justice shares responsibility for negotiation and implementation of the treaty. Early Senate action will also be required in order to allow for the treaty to be signed in Bangkok in November.

Prisoner Exchange Treaty. This agreement was signed in Bangkok by Attorney General Smith late last year. It could also be a candidate for signature if a) the Thai pass implementing legislation b) we get Justice concurrence and Senate action by then.

-- Economic Issues.

Economic issues which could be raised in discussion, or by way of a note given to senior staff officers, include the following:

Bilateral Aviation Agreement. The RTG has requested consultations before the end of the year under our bilateral agreement on civil aviation. The principal issue will be the Thai request for increased service to the U.S. The Thai believe that they are now entitled to a fourth flight (called frequency) through Seattle. They will be pressing for a fifth frequency through Seattle. Talks on this point have been unsuccessful from the RTG point of view and aviation rights may arise during the

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President's visit. [We understand that CAB (Civil Aeronautics Board) is preparing a briefing paper on this topic for the White House.]

Tin and other commodity issues. The Thai government has taken the lead on these issues only when charged with doing so on behalf of the other ASEAN states. As a major tin exporter, the RTG will be interested in the outcome of discussions between the U.S. and the ASEAN nations, principally Malaysia. [State action.]

Tax treaty. The Secretary of State proposed a tax treaty to the Thai in June and the Thai have said they would be prepared to talk in February 1984. Treasury has action on responding. It is not likely to arise in Bangkok, but may arise in Jakarta.

August 8, 1983

Drafted:EA/T:FMeade *MWf*
Clearance: EA/T:GEWolfe
EA:JMonjo
EB:MBarrera *Holmes*
T:Mussomelli
INM:JHudson-Ziegler

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MEMORANDUM

SUBJECT: US-Japan Relations and the President's Trip to Japan

The President's trip comes at the beginning of a new phase in Japanese-American relations. Under the leadership of Prime Minister Nakasone, Japan is becoming increasingly assertive in global matters and is forging an international role for itself. We wish to encourage this trend toward an increased sense of international responsibility by the Japanese, but it is essential that it be within the framework of a close bilateral relationship with the United States. The President's visit to Japan, and the themes that he strikes there will be instrumental in indicating to the Japanese and American people the kind of relationship we want in the years ahead.

Despite our concerns over trade and defense issues, our overall relationship with Japan is healthy. Ambassador Mansfield has said many times that ours is "the most important bilateral relationship in the world -- bar none".

The nature of our relationship with Japan continues to change. In the 1950's and 60's it was a relationship of US leadership and Japanese dependency. From the 1970's to the present we have achieved a close bilateral partnership, with Japan gradually becoming more of an equal rather than a junior partner. As we look toward the future, we are moving beyond a simple bilateral relationship toward global cooperation.

Objectives During the Visit

During his visit, the President should emphasize our overall relationship and its broader issues, and not get bogged down in the details of specific or contentious issues. Global cooperation with Japan to achieve peace and prosperity in the world, based on our shared values and close political, economic, and security ties, should be the overarching theme.

Our overall goals will be:

- To reaffirm the depth and importance of our bilateral relationship with Japan across an extraordinary range of political, economic, security, educational, cultural, trade, and scientific areas.

- To convince both the Government and the people of Japan that the Reagan Administration and President Reagan personally, are committed to work creatively with them to resolve outstanding issues.

SUBJECT: Issues Concerning Japan for the IG

1. The following issues should be addressed early on:

-- Letter from President Reagan to PM Nakasone in late August outlining US hopes for visit;

-- Public relations; speeches, backgrounders, with press, Congress, etc. building understanding and support for objectives during the visit;

2. The following issues should be addressed prior to the visit:

-- Voluntary auto restraints;

-- Citrus and beef quotas;

-- MOU on Defense transfer;

-- Pursue political dialogue on fishing/whale issue.

3. The following issues should be addressed prior and during the visit:

Economic (Starred items not at presidential level)

-- Press energy cooperation;

-- Lowering tariffs on agricultural products;*

-- Lowering tariffs on US forestry products;*

-- Mutual elimination of tariffs on semiconductors; market-opening;

-- Cooperation on high tech; COCOM issues and list review;

-- Speedup of licensing direct sales of US cigarettes;*

-- Implementation of Japan's standards and certification agreements;*

-- Renewal of NTT procurement agreement; Japanese action on procurement;

Science

-- Conclude nuclear cooperation agreement;

-- Cooperation on space station project;

-- Rationalize science/technology agreement.

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--To show that the President, personally, is seeking to reach an equitable and verifiable nuclear weapons agreement with the USSR.

--To convey to Asian nations that the US looks to them as much as to Western Europe and is determined to maintain -- even increase -- its presence in Asia.

In economic matters, the President should call for even closer cooperation to resolve global economic issues and call for faster progress in settling our bilateral trade differences. He could call for an acceleration of Japanese investment in the US to create jobs and defuse trade tensions. We should seek a package of expanded cooperation on energy, peaceful nuclear cooperation, space, and perhaps, cancer research.

In security affairs, we want to give public recognition to Japan's increased defense contribution and stress the role that our mutual security relationship and cooperation on aid make to Japan's prosperity and world peace. In private, the President will want to indicate that we will do everything we can to assist Nakasone politically in his effort to change public attitudes and achieve the prompt implementation of Japan's increased defense missions.

Political Issues

The President will visit Japan at a time when conservative political rule in Japan and support for the alliance with the United States are firmly established. Discussion of political issues therefore, will revolve primarily around regional and global affairs.

As Japan moves toward an increased political role in the world, it is important that we consult and cooperate closely with each other. Based on past experience, Japanese interests are likely to include:

- Relations with the Soviet Union and arms control
- Relations with China, Taiwan, and Korea, and the general security situation in Northeast Asia
- Relations with the ASEAN nations and the situation in Indochina
- U.S.-Japan cooperation on economic assistance, and general North-South issues
- The situation in the Middle East
- Central America and the Caribbean

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Economic Issues

Public and press attention during the President's Tokyo stop will focus most clearly on trade. Japan is our largest overseas trading partner, and two-way trade is expected to cross the \$60 billion mark in 1983. Estimates of our trade deficit with the Japanese this year range around \$30 billion. The recent Congressional outcry over the possibility that Japan will not continue to restrain auto exports to the U.S. demonstrates that trade issues are still a very live and emotional topic in our bilateral relationship.

We have just concluded US-Japan Economic Subcabinet consultations. (The US delegation was led by Under Secretary for Economic Affairs Allen Wallis.) The time before the President's visit in November presents us with the opportunity to make progress on a number of outstanding trade issues and improve the atmosphere before the President arrives in Tokyo. Prime Minister Nakasone's political position has been strengthened by the recent upper house elections, and there are indications that he wants to "clear the decks" for the President's visit, although the political constraints on him will be many.

The two most important issues to deal with before November, which will have the greatest symbolic impact in our trade relations, are a substantial increase in Japan's quota for beef and citrus products and another year of Japanese restraints on auto exports to the U.S. We have a good chance to achieve both of these. We should try to resolve some other pressing issues within the context of the President's visit. These include lowering the tariff on U.S. forestry products, mutual elimination of the tariff on semiconductors, Japanese impetus to implement the NTT Procurement Agreement. Successful implementation of Japan's new standards and certification regulations, and a lowering of Japanese tariffs in various sectors. Regarding energy, we hope that the President will engage in a frank exchange on the increasing importance of bilateral cooperation. (The U.S.-Japan Energy Working Group is exploring specific possibilities.) In general, we should move to defuse protectionist sentiments in the U.S.

With these actions taken before the November trip, the stage would be set for a productive high level visit that focusses on the broader, long term cooperative economic relationship that we seek with the Japanese in the 1980's and beyond.

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Defense Issues

Japan is moving toward acceptance of a greater defense role and a recognition that it can no longer be an island unto itself. Prime Minister Nakasone, who is a long time advocate of a strong Japanese military, clearly is out ahead of his own government and the public on this issue, and he has proceeded cautiously since his "unsinkable aircraft carrier" remarks to the Washington Post in May.

Although Japan has agreed during the past two years to accept additional roles and missions in its own defense and has increased its support of our security presence in the area, its defense budget has been inadequate to implement the new responsibilities it has accepted. In the latest budget, the Government has set a 6.88 percent increase in the ceiling for defense spending, although domestic spending will be cut by an average of 10 percent.

Prime Minister Nakasone has asked us to help him out politically by keeping a low public posture on Japanese defense, and we have tried to accomodate him. During the President's visit, we hope to play the defense issue in a low-key, reserving discussion of this issue principally for private meetings between the President and Nakasone, and carrying out our discussions in ways which reinforce Nakasone's committment to strengthening Japan's ability to fulfill its roles and missions at a quickened pace.

Drafted:EA/J:JRMalott:jrm
8/6/83 632-3152
Wang 1974B

Drafted: EA/J: DAnderson

Clearance: EB: Haigh

T: Mussomelli

EA: WBrown

EA: AAlbrecht

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ISSUES CONCERNING KOREA FOR IG

I. Issues to be Addressed by the IG

A. Immediately

--Whether to send a letter from President Reagan to President Chun outlining our hopes for the visit. (The main reason for doing this would be to preserve symmetry with Japan; if Nakasone is to get a letter, the Koreans will expect one also. It could be useful in setting the stage.)

-- Public relations activities. The impact of the Presidential visit, domestically and in Korea, could be enhanced by calling attention to the relationship in advance. The 30th anniversary of the security treaty in September would provide a logical peg.

B. Prior to the Visit

-- Security Assistance: informing the Koreans of the final FY 83 supplemental levels; discussing prospects for FY 84 and out-years in terms that will convey our determination to help, while avoiding unrealistic ROKG expectations.

-- "Strategic Partnership": achieving an agreed line for the President to take in the event Chun raises the issue.

-- VOA Transmitter Site: insuring that a technical team visit takes place and that the ROKG fully appreciates the political priority we attach to this project.

-- Human Rights/Democratization: making clear to the ROKG that these issues are prominent on our agenda; crafting the President's National Assembly speech.

-- Economic Issues: achieving interagency agreement on a Presidential approach to two or three priority issues (e.g., market access, investment climate), while avoiding excessive detail.

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II. Issues to be Addressed During the Visit

Security Relationship:

- firmness of US commitment;
- US-ROK alliance in context of security situation in Northeast Asia;
- Korea as a "strategic partner" (if raised);
- Security assistance/third-country sales.

Domestic Politics/Human rights:

- importance of progress in this area for stability and strength of ROKG and for long-term viability of US-ROK relationship.

North-South Relations/Tension Reduction:

- support for ROKG initiatives toward the North;
- assurance of continued close consultation with ROKG on these issues;
- need to respond alertly to opportunities for tension reduction, and to explore together possible initiatives to advance "cross-recognition."

Economic Issues:

- continued liberalization of Korean domestic market, and need for Korean support in resisting protectionism.

VOA Transmitter:

- importance of project; need to move it along quickly.

International:

- regional and global developments; need for Korean support where possible, and for broader ROKG foreign policy approach.

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Drafted:EA/K:D Lambertson

Clearance:T:Mussomelli

EB:MBarrera

HA:DBrown

US-KOREA RELATIONS: OVERVIEW

US-Korea relations are basically sound. Confidence in our security commitment, shaken by the plans of the Carter Administration to withdraw US forces, has been restored. The profoundly damaging impact of the Korea-related scandals of the late seventies has largely dissipated. President Chun's difficult and sporadically violent consolidation of power following the assassination of President Park in 1979, while not fully accepted by a significant minority in Korea (or their supporters in this country), has been generally accommodated. Economic relations with Korea have grown in importance. Significant policy issues nonetheless remain in all these areas, and will need to be addressed in connection with the President's visit.

Security. The alliance between the US and Korea has been successful in its central aspect: deterring war for nearly thirty years, despite a heavily armed and threatening North Korea. The threat is undiminished, and in fact has grown substantially in recent years, resulting in a significant military imbalance in favor of the North. The ROK and we have sought to redress that imbalance through a substantial Korean force modernization program, requiring large annual amounts of Foreign Military Sales credits, and measures to improve the capabilities of US forces. Our continuing inability to discern with confidence North Korean intentions, and the proximity of the demarcation line to Seoul, combine to produce one of our most demanding warning problems. We would have little time to react to a North Korean attack, and hence must maintain a high level of readiness. We have seen no indication of a shift in North Korea's basic strategy and therefore see little prospect for a reduction of tension on the peninsula or a dialogue between North and South. In view of the profound effects war in Korea would have for the stability of Northeast Asia and our broader interest, the maintenance of peace and security on the peninsula remains our fundamental policy goal, and is one that requires constant attention.

In view of this Administration's staunch record of support for our security commitment, we do not anticipate major problems in this area during the President's discussions. The President will, however, need to be prepared to respond to several specific Korean interests and concerns:

-- Security Assistance. We provide Foreign Military Sales credits to Korea, to assist ROKG efforts to pursue a force improvement plan designed to narrow the North's military lead. The necessity to operate under Continuing Resolutions, combined with Congressional earmarking of funds and competing priorities

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elsewhere, have resulted in shortfalls for Korea which are of great concern to the ROKG. We will want to assure Chun that we will continue to do what we can to obtain adequate FMS appropriations, but at the same time avoid raising his expectations. We should also try to de-emphasize the political importance of security assistance in Korean eyes, making the point that security assistance levels should not be regarded as an indicator of the strength of the US commitment.

-- Korean Interest in a "Strategic" Relationship: While the US commitment and troop presence is strategically important, in the sense that the maintenance of peace on the peninsula is essential to the security and stability of Northeast Asia, our forces in Korea, and the commitment itself, are directed toward the threat from North Korea, not the broader Soviet military challenge. The Koreans would like to add a more explicit strategic dimension to the relationship, both because they share our view of the dangers posed by the Soviet threat and want to help counter it, and because they believe this would give Korea advantages in its bilateral relations with us (e.g., by reducing our leverage on such issues as human rights). Thus, the Koreans have indicated they would welcome the deployment of strategic forces to Korea (e.g., ground-launched cruise missiles, or a homeported carrier). We have responded to those overtures in a noncommittal way; we do not wish to foreclose the possibility that we might at some point wish to take advantage of such offers, but we would want at that time to weigh carefully the potential negative effects upon our bilateral and regional interests (including the reactions of Japan and the PRC). Chun could raise this issue with the President.

-- North Korean Perceptions: While it is important for the President to affirm our commitment to the security of the ROK, this should be done in a way that will not contribute to North Korean paranoia and result in higher tension on the peninsula. The ROKG tendency will be to emphasize North Korean bellicosity and the solidity of our alliance in countering it. Without denigrating the threat, we should stress the defensive nature of the US-ROK security relationship and our hope that the danger of military confrontation can gradually be reduced.

Political Stability and Development in the ROK. It is in this area that the performance of the ROKG has often been both

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inadequate and controversial. Because his rise to power was marred by violence and signalled a continuation of military domination, President Chun's government has faced continuing difficulties in winning broader popular acceptance, and Korean political life continues to be characterized by confrontation between the government and a small but active element of the opposition. Despite some notable progress (e.g., the release from prison of the leading Korean dissident, Kim Dae Jung, and a partial lifting of a ban on political activity by officials of the Park era), the opposition remains dissatisfied with the degree of government control of political life, and skeptical of possibilities for future liberalization of the present strongly authoritarian system. It seems likely that unless the pace of change increases, tension will rise. Political stability could be threatened.

Moreover, as the guarantor of Korean security and its sole ally, the US inevitably is associated in the minds of many Koreans with the ROKG and the entire range of its policies (an impression the government often seeks to foster). Anti-government sentiment has increasingly taken on anti-American overtones, sharpening the basic dilemma we have long faced in Korea: how to preserve security on the peninsula while avoiding identification with the repressive aspects of a government allied with us in that task.

Thus, it is important that we continue to encourage further steady progress in the area of political liberalization, and to make clear the importance we attach to a credible and peaceful transfer of power at the end of Chun's term in 1988, when he has announced that he will retire. The President's visit provides an opportunity to do this, without offending ROKG sensibilities.

Economic Relations. Korea's dramatic economic growth over the past two decades has transformed the country from one of the least developed in Asia to the 25th largest economy in the world. Because Korea's economy is traditionally export-led, global recession impacted heavily on it over the past two years. It nonetheless has performed extraordinarily well, registering more than 5 percent real growth in 1982. As the Korean economy has grown, its importance as a market and supplier for the US has increased accordingly. Two-way trade exceeded \$11 billion in 1982, making Korea our ninth largest trading partner worldwide, and unique among our major Asian trading partners in that our bilateral account was essentially balanced.)

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In addition to the uncertainties attendant to heavy dependence on exports, Korea faces the complex task of shifting from a heavy industrial base to a higher technology economy if it is to remain competitive. This second stage of economic development will be more difficult to reach than the impressive industrialization achieved to date and, given global economic realities, the phenomenal growth rates of the 60s and 70s are unlikely to recur. Continued steady growth is, however, essential, both to support the required heavy military expenditures (6% of GNP), and to contribute to political stability among a populace by now accustomed to rising standards of living.

Despite these potential problems, the policy issues posed for us in this area stem basically from success, e.g.: we seek greater access to Korean markets; a liberalized investment climate for American business; our fair share of Korean purchases of major equipment (e.g., aircraft, nuclear power plants); and the successful management of recurring sectoral trade problems. The President's visit will enable us to make a number of points in all these areas, and in general to encourage an increasingly mature and responsible Korean role in the management of international economic issues, commensurate with its growing economic importance.

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SECRET

Drafted:EA/K:D Lambertson

Clearance: T:Mussomelli
EB:MBarrera
HA:DBrown